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Current debates on pension policy are overwhelmingly focused on the expected impact of population ageing on the financial viability of current arrangements. However, demographic pressures are not the only problem pension policy-makers have to face. Changes in labour markets that have taken place over the last two to three decades, have brought into the labour force western countries a whole new range of career profiles, that are usually not well covered by the pension systems that we have inherited from the postwar years. Above all, this is a result of the massive entry of women, and particularly of mothers, in employment, who tend to have careers punctuated by interruptions and/or characterised by long spells of part-time employment: two situations that tend to result in more or less serious pension penalties at the age of retirement. But there are also other important labour market changes from this perspective. New risks such as long term or cyclical unemployment are more widespread after the 1970s, and changes in the organisation of work and in technology mean that the risk of possessing obsolete skills is also on the increase, and may result in more frequent job changes or time spent out of the labour market in order to acquire new skills. All this labour market situations tend to generate pension entitlements lower than those obtained by standard workers who spend their entire working life in full time employment. Yet it is generally on this ever rarer career profile that our pension systems are modelled.

Workers who are not well covered by existing arrangement are increasing in numbers and constitute, at least potentially, an electorally interesting constituency. As a result we can expect political entrepreneurs to be responsive to their needs and bring them into the pension policy arena, where they compete for attention with other pension issues such as adapting to population ageing. The co-presence of these two pressures on pension policy may provide a much appreciated opportunity for political exchange between political actors that worry about the long-term financial sustainability of pension arrangement and those who care about the inclusion of atypical workers in a decent pension settlement.

In this paper, such instances of political exchange are termed "modernising compromises". They modernise pension systems in so far as they include elements of adaptation to new social demands. They are compromises, because the inclusion of such measures broadens the support base of a reform, and makes the adoption of unpopular retrenchment measures more likely.

Modernising compromises look like the way forward in pension reform, capable of producing politically acceptable policy change. Nonetheless these are rare, though not non-existent. The objective of this paper is to identify the conditions under which such compromises are possible and even likely, and those under which they are not. It starts with a presentation of the argument on why we can expect modernising compromises to occur, and under what conditions these are most likely from a theoretical point of view. Then the paper moves on to the discussion of pension reform trajectories in five countries, Sweden, France, Switzerland,

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Italy and Germany, which have all successfully adapted their pension system in the 1990s. In the final part, the comparison of the various pension reform is used to test empirically the validity of the hypotheses considered.

Modernising compromises in pension reform: the argument

The 1990s and early 2000 have demonstrated that pension reforms are extremely difficult political exercises. The ability to retire from work at the age of 60 or 65 and enjoy a standard of living close to the one experienced while in employment is a conquest of industrial societies to which citizens are extremely attached. The political science literature has long recognised this essential feature of pension policy in the current context of austerity, and has emphasised the fact that welfare reforms in general, but in particular the retrenchment of pension arrangement, is a politically treacherous exercise that pushed government to develop skilful, if intransparent, policy making strategies such as obfuscation or the inclusion of side payments in reform (Pierson 1994; Pierson and Weaver 1993).

Political actors defending the status quo against retrenchment have several advantages in the political confrontation on pension reform. First, they can rely on the overall popularity of pension arrangements to find supporters and even to enlarge their social basis. Second, the opposite camp, supporting retrenchment, faces a stronger risk of defection. In fact, political actors (parties, and especially unions) belonging to the pro-retrenchment coalition may be tempted to reap the popularity dividend of opposing reform and either abandon the pro-retrenchment camp or to adopt an ambiguous position on reform (Bonoli 2000). Opponents of reform can often count on easy-to-mobilise constituencies, consisting of older workers, who are obviously looking forward to their retirement and having been socialised in the world of work in the 1960s and 1970s are likely to have a strong class identity and inclination to resort to informal protest. In many countries, it is these workers who make up the bulk of union members.

This feature of pension reform is confirmed by the failures of governments who have attempted to impose cuts unilaterally. The clearest examples are the failed reform initiatives undertaken by the Berlusconi government in 1994 in Italy and the Juppé government in 1995 in France. On both occasions, governments prepared their reform plans without any significant negotiation with the unions and attempted to impose them unilaterally. The result was massive and sustained informal protest which led first to the abandonment of the reform plans, and subsequently to the fall of the governments (Natali 2002; Bonoli 2000).

Faced with immense problems of political feasibility on the one hand and under the pressure of actual or predicted financial imbalances due to population ageing, with the exception of the few instances mentioned above, governments have been inclined to search for compromises with the relevant political actors, in particular the unions (Myles and Pierson, 2001; Natali 2002; Bonoli 2000). Compromises have often simply taken the shape of moderation in the extent of cuts, often below what pension experts regarded as essential to restore the financial soundness of schemes, or have taken the shape of “quid pro quos”. These can be described as real instances of political exchange between a reform-oriented government and coalition, usually structured around the labour movement, defending the status quo. Quid pro quos, are likely to be more effective factors of political feasibility than moderation, as they require the inclusion of new elements in the reform that constitute an advantage for political actors representing those who are otherwise losing in the reform.

Such *quid pro quos* can take several different forms. In Italy, for example, the unions obtained a very long phasing in period for the reform, so that most of their current members (retired people and older workers) would not be affected by the changes. In Sweden, an overall reduction of pension entitlements was accompanied by a change in the formula that, in comparison to the pre-reform system, is more favourable to blue collar workers. These elements, and those which are reviewed in the case studies presented below, are not simply instances of moderation in pension reform but are real concessions targeted on key actors that because of their mobilising capacity can conceivably disrupt the policy making process and prevent the successful adoption of the reform. From the point of view of the actor concerned, these *quid pro quos* represent an improvement of the policy, and in this respect they are much more effective in ensuring the acceptance of a reform than compromises based on moderation. The actors who benefit from these deals are not simply going to reluctantly accept the reform, they will have a stake in it.

Policy-makers wishing to contain the future growth of pension expenditure are likely to be on the look-out for *quid pro quos* that can ensure the adoption of at least partially retrenchment-oriented reforms. In this respect, the existence in pension policy of issues other than population ageing may constitute a serious opportunity for them. The adaptation of pension systems to changing labour market and family structures is certainly one of these issues. Generally speaking, the pension systems that we inherited from the post-war years are based on the assumption that full-time uninterrupted work is the norm. What's more, during the *trente glorieuses* work was generally characterised by high wage increases which were possible thanks to rising productivity in manufacturing. Today's labour markets, however, are very different. As large numbers of women have gained access to employment, the sort of career profiles that one finds in the workforce have become much more heterogeneous. Because women tend to be the main carer even in contemporary families, their working lives are typically characterised by interruptions and by long spells of part-time employment. In addition, post-industrial employment is characterised by higher levels of both cyclical and long term unemployment than what used to be the case during the full-employment years after World War II.

The career profiles that result from these labour market changes are generally not particularly well covered by existing pension systems, which were mostly constructed during the early postwar years. Of course, a majority of labour market participants continue to conform to the standard pattern of full time uninterrupted work, but the size of the minority that does not fit into this group has increased dramatically over the last couple of decades (Bonoli and Gaydes-Combes 2003). Because the time they spend out of the labour market does not generate pension entitlements, they risk reaching retirement age without adequate pension coverage. This group is slowly gaining awareness of its situation, and it is beginning to represent an electorally interesting constituency. To improve the pension coverage of these groups of marginal workers can be seen as an additional demand on pension systems.

Policy makers can be seen as caught between two contrasting pressures: on the one hand, they need to keep pension schemes financially viable, especially in the context of the worsening the population age structure. On the other hand, they must improve the way in which marginal workers, individuals with atypical career profiles have access to decent pension income. Contrasting pressures, however, may turn out to be an opportunity for pension reform. In fact, we can expect that the presence of two sorts of demands on policy-makers will create scope for *quid pro quos* that combine cuts in the overall generosity of pension schemes with

selective coverage improvements targeted on disadvantaged workers. As generalised cuts concern a much larger number of persons than targeted improvements, it is possible to carry out these quid pro quos in a way generates substantial savings, and is therefore consistent with the overall aim of preserving the financial sustainability of pension systems. At the same time, relatively inexpensive improvements may help the reform to attract the support it needs to be adopted. The combination of retrenchment and selective expansion within a single pension reform can be described as a modernising compromise. It constitutes an instance of "modernisation" of the pension system in the sense that pensions are adapted to socio-economic changes that create new needs.

Modernising compromises are based on the quid pro quo logic described above, and can combine, for example, changes in the pension formula that result in lower benefits or increases in retirement age with generous contribution credits for carers, or measures that strengthen the inclusion of part-time workers in pension schemes. In spite of their political robustness, modernising compromises have been rare in recent pension reform, though not non-existent. Theoretically we can expect modernising compromises to be particularly likely under specific institutional and socio-economic conditions. These are explored by the following hypotheses.

Modernising compromises are more likely in countries which do not provide measures designed to improve the pension coverage of non-standard workers

Modernising compromises are likely to be one-off events. Once the deal has been made, i.e. once the position of non-standard workers has been improved through the adoption of dedicated policy measures, the pressure to solve this problem and as a result the "value" of this sort of measures as a token of political exchange, is reduced. It is of course also possible that the inclusion of non standard employment in pension coverage takes place incrementally, and as a result modernising compromises take place more than once. However, it seems reasonable to expect this kind of policy packages to be more attractive in countries where this sort of provision is non-existent.

Veto points are conducive to (modernising) compromises

Veto points are a powerful incentive for policy-makers to seek negotiated policy solutions (Lehmbruch 1993; Neidhart 1970; Tsebelis 1995; 2001; Schmidt 1996). In political systems where interests that are not represented in government have effective opportunities to challenge the adoption of legislation, governments are often inclined to take into account their policy priorities and demands, and policy to take the shape of compromise. In the field of pension reform, countries with political systems characterised by a high density of veto points have tended to adopt less unilateral and more consensual policy solutions (Bonoli 2000; 2001). Veto points are thus associated with compromises, and can as a result be expected, all other things being equal, to favour the adoption of the sort of policy packages described as modernising compromises in this article.

Modernising compromises are likely in countries where older employees and non-standard workers are represented by the same political actor

From a theoretical point of view, we can expect modernising compromises to take place when those who lose as a result of retrenchment and those who gain as a result of selective improvements are represented by the same political actor (e.g. a trade union confederation or a Social democratic party). Under such conditions, a single political actor is both a winner and a loser in the reform, and may find the overall result satisfactory. A crucial variable in this respect is the membership composition of the unions. Where these are mostly made up of older workers, modernising compromises are unlikely. Why would a political actor representing people who are about to retire trade cuts in their pension entitlement for improvements in the position of low-unionised atypical workers? In contrast, in countries where among union members one finds women and younger workers confronted with the issue of non standard employment, we can expect modernising compromises to be an acceptable deal for the labour movement. Modernising compromises are thus more likely in countries in which the unions, and in case of a divided labour movement, those whose assent is essential to the adoption of a reform, have memberships which contain a substantial proportion people with a marginal labour market situation. Here we can expect the political gains to some of the organisation's members to outweigh or at least to compensate for the losses experienced by other members.

Unfortunately, accurate comparative data on the age and gender composition of trade union membership for each of the five countries covered in this paper is apparently not available. Table 1, however, provides some information on this independent variable. The proportion of non active members in a union, most of whom are retired persons, provides a rough indication of the age structure of the membership.

Table 1: Trade union membership. Non active membership as a proportion of total membership, female density and % of female members, selected countries, 1998 or most recent available

	Non-active members	Female union density	Proportion of female members, main union confederation
Austria	17.5	32.6	31.7
Denmark	14	59.2	48.4
Germany	19	16.7	30.4
Ireland	-	45	38.3
Italy	49.5	-	-
Netherlands	19	17	26
Sweden	-	89.5	48.4
Switzerland	13.3	14	22,1*
United Kingdom	-	-	38.5

Source: Ebbinghaus and Visser 2000

* Source: USS, personal communication

This argument can be extended also to countries where the most important political actor opposing reform is not the labour movement but a single-issue interest group. Under such circumstances, modernising compromises are most unlikely. It is in fact difficult to picture the US AARP acquiescing to pension cuts in return for measures that are likely to benefit not its members, but working mothers and marginal employees.

Modernising compromises are likely in countries where there are ties between the Social democratic party and the unions

Modernising compromises can also be expected in countries where losers and winners are represented by different political actors, but where these political actors are relatively strongly connected. Generally speaking the link between Social democratic parties and the trade unions is strongest in countries with reformist labour movements and where Social democratic and unions have tended to have either a balanced relationship or one dominated by the party. In our five country sample, strong connections between unions and Social democrats exist in Sweden (party lead) and in Switzerland (balanced). Links are considerably less important or inexistent in Germany, France and Italy (Ebbinghaus 1995: 82-4).

An example of a country in which modernising compromises are particularly likely would be one with a trade unions movement representing mostly core middle aged industrial workers, likely to lose in the reform, but with strong organisational and political ties with a Social democratic party with a left-libertarian orientation (Kitschelt 1994), and stronger inclination to take into account the problems of non-standard workers. This situation may even be more conducive to modernising compromises than the one in which both groups are presented by the same actor. Under such circumstances, the union leadership may give the impression to be ineffective in protecting the interest of some of its members. When the two groups are represented by different but connected political actors, instead, the one representing the losers can openly defend the status quo against the reform, while the one representing the winners can support the reform, but because the two actors belong to the same political camp, one can expect the opposition for the reform to be somewhat moderated.

The case studies: pension reform in five countries

The hypotheses presented in the previous section are tested against developments in pension policy in five western European countries: Sweden, France, Switzerland, Italy and Germany. These countries have all successfully introduced pension reforms in the 1990s, usually after negotiations with the union or after the inclusion in the new pension legislation of substantial concessions to the unions. It is under these circumstances that modernising compromises can be adopted. The discussion of each national case includes a presentation of the main elements of the pension reform and of the policy-making process and a description of the provisions for atypical career profiles, essentially contribution credits for non-employed people.

The Swedish reforms of the 1990s

In the 1990s, Sweden has changed its pension system dramatically. The most notable new feature is arguably the shift from a defined benefit to a defined contribution system. This doesn't change the financing method of Swedish pensions, which remain predominantly based on pay-as-you-go financing, but only the calculation method of benefits. In the new system, benefits are based on career earnings, whereas before the reform only the best 15 years would be considered. This means that, all other things being equal, the pensions calculated on the basis of the new formula will be lower than those resulting from the old system, especially for workers with career interruptions or for those experiencing big wage increases towards the

end of the career. An additional feature of the new formula, is the fact that it includes a demographic weighting of the benefit based on the life expectancy of each cohort reaching retirement. If this increases, pensions are automatically adjusted downwards. Finally, the reform includes also provision making individual retirement accounts compulsory, known in Sweden as "Premium reserve" pensions. These are financed by a 2.5% contribution and can be chosen by each insured person among some 500 competing providers, which include commercial companies, trade union funds, and a default fund run by the government.

The Swedish reform, in spite of the fact that it introduced some retrenchment elements especially for people with specific career profiles, was accepted in a consensual manner. The main losers in the reform were white collar employees and managers, or those who start working relatively late after a long period spent in education. Losses are however more widespread, as about 80% of the population is likely to lose between 7 and 8% of their pension as a result of the reform (Anderson 2003: 24). This loss should however be compensated by the income stream resulting from the new Premium reserve pension, which will depend to a significant extent on the returns on the invested capital, and is as a result unpredictable.

The political success of a reform that created so many losers can be explained with reference to a number of *quid pro quos* which took place between different actors. First, the blue collar union, LO², obtained from the reform a new pension formula that is comparatively more advantageous to its members than the previous one. The system that existed prior to the 1990s was introduced in the late 1950s, after difficult and contentious negotiations among all relevant actors. At the time, the issue was to generalise second pillar pension coverage that was available only to some, mostly white collar workers and managers, who were covered by company pension funds. The blue collar union LO was behind that move, and in order to make the change acceptable to the middle classes, it accepted a pension formula which based the final benefit on earnings obtained during the best 15 years: a formula that was particularly advantageous for managers and white collar workers who start working later and tend to see their earnings increase faster towards the end of their career. The formula that was in force prior to 1990s reforms turned out to be well suited for women as well. In fact, career interruptions and periods on low earning due for example to part-time work did not impact on the pension because of the 15 years rule in the formula.

In order not to penalise women but also as a compensation for white collar workers who had lost out because of the change in the pension formula, the reform introduced generous contribution credits for several categories of non employed people. These are granted for career interruptions due to child rearing, periods of unemployment, study, military service, and sickness. With regard to child rearing, if a parent reduces working hours in the four years following the birth of a child, contributions are credited to his/her pension account on the basis of previous earnings. If he or she stops working completely, then the contribution credit will be based on 75% of the average wage. If parents continue working as before having a child, their credited contributions will be based on their earning plus one base amount. Parents can claim only one child credit at any one time, but they remain entitled to it as long as they have children younger than four. People serving in the army receive a contribution credit based on 50% of the average wage. Individuals who are not working because of

² The Swedish labour movement is divided according to occupation. Blue collar workers are represented by LO, the largest and most politically influential union federation in the country. White collar employees are represented by TCO and people with tertiary education by SACO.

unemployment or sickness receive contribution credits based on their insured earnings (Riksförsäkringsverket 2001). Contribution credits apply to both the pay-as-you-go scheme and the Premium reserve pension, to which actual contributions are paid in by the government.

The Swedish reform combined overall retrenchment in pensions with the introduction of one of the most generous systems of contribution credits. Swedish contribution credits, unlike those in most other countries, apply not only to the state pension, but also to private individual retirement accounts. Of course, to a large extent these contribution credits can be seen as a way to compensate the losses that the lifetime earnings formula engenders for some disadvantaged workers. Many of those who are now entitled to contribution credits would probably have fared just as well (or even better) under the old system. However, the fact that their needs have been taken into account when drafting the reform, suggests that the political actors behind the compromise were sensitive to them.

France: The 1993 pension reform

The pension reform issue has been almost permanently on the agenda over the last decade in France. The popularity of the pension system, the divisions within the labour³ movement and the fact that some of its most radical sections are not inclined to collaborate with government sponsored retrenchment initiatives have made the reform of pensions a particularly thorny issue. Governments of different political persuasion have been equally fearful of the potential political consequences of pension reform, and have tended to procrastinate policy change. On only two occasions have there been serious attempts at reforming the pension system. The first one was successfully carried by the right-wing Balladur government in 1993, and is reviewed below. The second attempt, by the Juppé government made in 1995, failed after some three weeks of sustained union protest and public sector strikes⁴.

The French pension system contains several provisions related to family events. These, however, are not so much meant to compensate for contribution gaps due to child rearing, but look more like incentives to have children. This is perfectly in line with France's natalist orientation in family policy. Mothers are entitled to two additional years of contributions for each child they have taken care of. Fathers can also receive extra contribution years if they take parental leave. In addition, parents who reduce working hours or stop working altogether in order to take care of a child are entitled to a cash benefit, known as "*Allocation parentale d'éducation*". The benefit is available to parents of at least two children and can last up to three years. Beneficiaries of this benefit are credited with pension contributions equal to those due on a salary of €1127 per month (in 2002). Finally, parents who have had at least three children, are entitled to a pension bonus equal to 10% of the benefit. These measures,

³ There are five major national federations of trade unions in France, which operate independently from each other. The divisions reflect the political spectrum. Starting from the left, the *Confédération Générale du Travail* (CGT) is of Communist inspiration. *Force Ouvrière* (FO) originated from a division within the CGT in 1947 and constitutes its non-Communist component (it is sometimes referred to as CGT-FO). The *Confédération Française Démocratique des Travailleurs* (CFDT) is a moderate union which in recent years has been much more co-operative with the government than its counterparts. Finally the *Confédération Française des Travailleurs Chrétiens* (CFTC) is a federation of Catholic unions. In addition, there is also a federation representing managers (CFE-CGC *Confédération Française de l'Encadrement - Confédération Générale des Cadres*).

⁴ See Bonoli 1997; 2000 and Natali 2002 for explanations of the different outcomes of these two reform initiatives.

however, have been in force since the 1970s or before. They are not related to the current drive to adapt pension systems to women's career profiles. (France pratique 2003; CNAV, personal communication).

Soon after the 1993 general election, the newly elected right-wing government started working on the pension reform issue. The trade unions, particularly the Communist CGT and the radical FO were rather reluctant to accept cutbacks, as they had been before. Ministry officials were certainly aware of the fact that a fully consensual solution was not possible. Nevertheless, what could be achieved, was a situation in which at least the most radical sections of the labour movement would have refrained from staging an informal protest.

The government's position was to favour the adoption of the measures suggested in an earlier White Paper published by their Socialist predecessors in 1991. The number of contribution-years needed to be granted a full pension of 50 per cent of the reference salary was to be increased from 37.5 to 40. At the same time, the reference salary was to be calculated as the average re-valued salary of the best 25 years (instead of 10 years). Third, the indexation of benefits currently in payment was to be shifted from gross wages to prices. The overall impact of this series of measure, which were eventually adopted, is a reduction of benefits and possibly also an increase in the age of retirement, since employees will qualify for a full pension 2.5 years later than under previous legislation.

These proposals, which were clearly unacceptable to the trade unions, were accompanied by plans to set up an 'Old age solidarity fund' (*Fonds de Solidarité Vieillesse*), financed through general taxation (as opposed to contributions) with the task of paying for the non-contributory elements of the insurance-based pension schemes. The new fund takes financial responsibility for minimum pensions, which are granted on the basis of an income-test and regardless of contribution record, and for contribution credits given to unemployed people, to those serving in the army, and to parents. Before the 1993 reform these non-contributory benefits were to some extent financed by employment-related contributions. In fact, the shift in financing of non-contributory elements from contributions to taxation was a key demand of the labour movement.

The French trade unions view the social security system as not being part of the state apparatus, but as some sort of collective insurance plan covering all salaried employees. From their perspective, the inclusion of non-contributory elements constitutes an infringement of the insurance principle according to which there must be a strict link between payments and benefits. This understanding of the role of social security was the basis upon which the whole system was built in 1945. As a matter of fact, the management of social security was not given to civil servants but to joint committees composed of representatives of employers and employees. This perception, however, is not shared by state actors. For them, the social security system is primarily a social policy instrument, which must intervene where social needs are identified. As a result, throughout the post-war period governments of different political persuasion have adopted measures to extend adequate coverage on a non-contributory basis to those who had been unable to build up a sufficient contribution record.

This diversity of views is a constant source of conflict between governments and the trade unions on the definition of the objectives of social security (Bonoli and Palier 1997). The state has been trying to expand its control over the system, while the trade unions have resisted such moves. For the latter, in fact, the managerial role they play is of crucial importance. First it gives them some sort of legitimacy in the eyes of public opinion, which

somewhat compensates for their small membership. Second, it provides a substantial source of employment for union members (Rosanvallon 1995). For the trade unions, thus, it is extremely important that the social security system remains under their control and that its financing is guaranteed.

The creation of a new 'Old age solidarity fund' must be understood as a move towards meeting some of the unions' demands. The acceptance by the government of the separation between insurance-based and non-contributory provision was a de facto recognition of the insurance character of the main scheme, and by the same token, of the managerial role played by the unions. Moreover, the fund brought additional finance to pensions and as a result a balance between cutbacks in provision and increases in financial means was achieved. The reform package, thus, included an element that was certainly going to be palatable to the trade unions, and that could be seen as a *quid pro quo* for their acceptance of retrenchment measures. This helps to explain why even the most radical sections of the labour movement refrained to attack the new legislation through informal protest.

In France, there was a clear *quid pro quo* between the unions and the government. However, political exchange here did not result in an improvement of pension coverage for people with atypical career patterns, in particular parents who reduce working hours or stop working altogether in order to take care of their children. This may be due to the fact that such provision existed before and, unlike in Sweden, it was not affected by the reform. The French system is rather generous for mothers, as women with two children can obtain four extra contribution years, and as a result take retirement earlier. Even though the credit is not meant to compensate for gaps in the contribution record (it is available also to mothers who stay in employment) periods spent out of the labour market for child rearing are probably well covered in France. However, other forms of non-employment and reduced hours employment do not benefit from the same treatment. Longer spells of part-time employment, whether in conjunction with child rearing or not, may result in substantial pension losses (proportional to the reduction in earnings).

Switzerland: Adapting the pensions to women's career profiles (1995 reform)

The origins of the 1995 pension reform go back to 1979, when, as a result of the adoption of a constitutional article on gender equality, it was decided that gender based provision in the basic pension, for example with reference to how couple pensions are calculated, needed to be done away with (Bonoli 2000). Progress with this reform, however, was slow, and it was not until 1990, that a bill was produced by the government. The key element of the bill was the introduction of gender equality, but without abandoning couple pensions. The bill made provision for the removal of any reference to gender in the pension formula, but did not take any proactive action in favour of women (such as contribution credits or sharing between spouses) as was advocated by various actors.

Because it maintained couple pensions, the 1990 pension reform bill was seen by many with disappointment, especially by women's organisations and by women MPs in the Social democratic and Free-Democratic parties. Within the Social security commission of the lower house of parliament, a consensus emerged on a radical modification of the bill, so as to adopt a more progressive stance in taking into account the position of women in the labour market. By 1993 the bill had been significantly modified by parliament. It now envisaged the introduction of a contribution-sharing system between spouses and contribution credits for

informal carers. Together with these measures, on which there was a relatively strong consensus, the new version of the bill included also the more controversial measure of raising retirement age for women from 62 to 64 (for men retirement age is set at 65). This was imposed by the right-of-centre parliamentary majority, against the Social democrats, allegedly in order to comply with the constitutional requirement of gender equality but also to achieve some savings in view of the predicted worsening of the ratio between pension scheme contributors and beneficiaries over the next few decades.

The increase of women retirement age from 62 to 64 can be regarded as an instance of retrenchment rather a measure taken to comply with the constitutional article on gender equality. In fact, even though Switzerland does have a written Constitution, there is no Constitutional court entrusted the task to interpret or enforce it. In practice, the Constitution is interpreted by the government's own legal services, and on the issue of women's retirement age, the government's view was that the constitutional gender equality requirement was not to be applied until better labour market equality, in terms of wages, career patterns, would be achieved.

The introduction of the higher retirement age for women was fiercely attacked by the main union federations, USS and CSC⁵. Together they took advantage of the constitutional provision that allows any groups of citizens to challenge legislation passed by parliament in a referendum on the as long as they are able to produce 50,000 valid signatures demanding a vote. Both unions claimed to support contribution sharing and contribution credits for carers. However, they regarded the increase in women's retirement age as unacceptable, and were prepared to renounce the improvements in women's coverage if the increase in retirement age could be avoided. The referendum took place in June 1995, but the bill was accepted by 60.7 per cent of voters and as a result it became law.

Survey data suggest that the success of the bill at the polls was to a large extent due to the fact that it combined expansion measures (contribution credits) with an element of retrenchment (the increase in retirement age for women). Each measure was able to attract the support of different political camps, which dramatically increased the proportion of the electorate likely to vote in favour of the bill. It is fair to say that each one of the two measures, if adopted independently from the other one, would have been at a considerably higher risk of defeat at the polls. On this occasion, the improved coverage against a new social risk, that of being insufficiently covered by postwar welfare arrangement, was made possible but at the expense of an important concession: the acceptance of the increase in retirement age for women. Seemingly, the parliamentary coalition that supported the move, and in particular the Social democratic party, cared more about younger women, who are the winners of the reform and are typical victims of new social risks, than about older women in employment (who now have to wait 2 extra years before reaching retirement age). The trade unions, in contrast, assessed the same situation in opposite terms.

⁵ Switzerland has two main union federations, the largest one is USS which is close to the Socialist party, and CSC, of Catholic inspiration, is close to the Christian democrats. CSC has recently merged with the country's white collar union.

Italy: the 1995 Dini reform

Until the early 1990s, Italy had one of the most generous and costly pension systems in Europe. The state scheme provided pensions equal to 70 per cent of the last five years average salary from the age of 55 or 60 for women and men respectively. Financial pressures on the scheme intensified in the late 1980s, when the government budget deficit reached worrying proportions. A first attempt at containing pension expenditure was made in 1992. On that occasion the statutory age of retirement was increased to 60 for women and 65 for men and the reference salary was changed from the average of the last 5 years to that of the last 10 years. Considering the unusual generosity of previous legislation and the fact that the changes adopted in 1992 were not enforced immediately, but were meant to be phased in over a fairly long period, the 1992 reform constituted only a very limited attempt to deal with a very serious problem in financing pensions (Ferrera 1997; Natali 2002).

That is why towards the mid-1990s pension reform came back on the political agenda. First, in 1994 a right-of-centre government headed by Silvio Berlusconi tried to adopt a series of cuts in pensions without seeking external support. The response of the trade unions was to call a general strike, which persuaded the government to abandon its plans. In contrast, in 1995, a 'technical' government which had the support of the left in parliament, managed to push through a more fundamental reform. The key modification was a shift from a defined-benefit system, where benefits are expressed as a proportion of earnings over a given number of years, to a defined-contribution system. Benefits now depend on the total amount of contributions paid by workers, which upon retirement is converted into an annuity whose value depends on the age of the person, on how the country's economy is performing and on the number of pensioners. The last two parameters are meant to allow the government to keep pension expenditure under control. The reform will most likely result in lower benefits (Ferrera 1997; Artoni and Zanardi 1997).

From the first stages of the preparatory work for the 1995 reform, it was clear that for the government it was essential to obtain the support, or at least the acquiescence of the labour movement. Berlusconi's failure to retrench pensions unilaterally, and the weakness of the 'technical' government which did not have its own majority in parliament (but was supported externally by a small number of centre left parties), provided powerful incentives to seek consensus. As a matter of fact, the starting point of the negotiations was a document drafted by trade union experts.

The 1995 reform was adopted with the support of the trade unions who, in return for their approval, obtained a fairly long phasing in period for the new system, which will become fully effective for people retiring from 2013 onwards. The key constituencies of the Italian trade union movement, current pensioners and older workers, were not affected by the reform (Ragini and Regalia 1997: 215-217). The unions obtained also equalisation of treatment among different occupational groups. Under the previous legislation, some groups (civil servants, but also some self-employed) were entitled to a more generous treatment. More specifically, contribution rates for public sector workers were increased to the same level of those paid by private sector employees (20% of earnings), and those paid by the self-employed were also increased, though to the lower rate of 15% of earnings.

But what is more important in respect to the introduction of equal treatment between employees and self employed, is a result of the shift to a contribution defined system. Under the previous system, contribution evasion did not necessarily result in lower benefits, as the

amount of the pension was based on the earnings declared during the last year prior to retirement. This meant that the self-employed, among whom contribution evasion is notoriously widespread, could take advantage of the system by getting high pensions in spite of having paid low contributions for most of their working life. With the new defined contribution system, instead, contribution evasion automatically results in lower benefits. The reform removed this opportunity free riding for the self-employed and made as a result a significant step in the direction of salaried employees. This was a significant contribution to making the reform acceptable to the organised labour (Natali 2002: 102-111).

The reform has also introduced measures that improve the coverage of non-standard workers. For instance pension contributions are credited for periods of inactivity due to maternity (5 months) or parental leave (10 months), sickness or accident (12 months), unemployment, and military service. Parents can also claim contribution credits for short periods of time spent caring for sick child (5 days per year). The amounts credited are based the average salary of the recipient. Contributions are not credited for years spent as a student, nor for longer periods of non-employment spent caring for children. These career interruptions can be compensated, but the missing contribution years must be “bought” (*riscatto*) by the insured person. Non-working partners of employed persons, essentially housewives (*casalinghe*), can obtain pension coverage, but need to pay for it (Leonardi and Peruzzi 1995; INPS 2001). According to the vast literature on the 1995 pension reform, these measures did not play any significant role in making the reform more acceptable to the unions or the electorate in general. In fact, they are rarely mentioned which suggests that their role in the politics of the reform was rather limited. It should also be noted that the contribution credits introduced by the Italian reform are rather meagre in comparison with what carers can obtain in countries like Sweden or France.

Germany: the 2002 pension reform

Like in other western European countries the pension reform issue has been high on the agenda throughout the 1990s in Germany. First, in 1992, the indexation of pensions was shifted from gross to net wages (Schmähl 1993). Subsequently the Kohl government introduced a more radical reform which through a demographic weighting of benefits would have reduced pension levels and contained costs in the medium to long term. The Kohl reform was nonetheless repealed by the social democratic government which came to power in 1998. Under pressure to deliver an alternative policy, the Social democrats adopted a pension reform modifying the pension formula so as to gradually reduce the replacement rate from the current 70 percent for a full contribution record to around 64 percent in 2030⁶. Together with these cost containment measures Germany has also introduced provision for a fully funded private pension, to which private sector employees can voluntarily contribute tax free (with a ceiling) up to 4 percent of their earnings. The reform includes also a commitment to reduce expenditure if a contribution rate (joint employer and employee) higher than 20 percent of gross wages in 2020 and higher than 22 percent in 2030 is required (Nöcker 2001; Hinrichs 2003; Hering, in press).

⁶ The government has claimed that the replacement rate will decline to 67 percent only, but this figure is based on earnings net of the non-compulsory contribution paid to a private pension. The figure of 64 percent is based on net earnings according to the pre-reform definition, and hence comparable with the current replacement rate of 70 percent (Nöcker 2001).

The adoption of the German reform proved extremely difficult for the government. Quid pro quos like the ones seen in other European countries are less clearly evident in this case. Substantial opposition from the left wing of the SPD could only be overcome through skilful policy-making by Schröder himself, based on the isolation of opponents rather than on their inclusion in policy-making (Hering, forthcoming). The German reform did nonetheless contain some expansion measures. Most notably it introduced a means-tested benefit of last resort for older people who have not managed to build up a contribution credit sufficient to generate an adequate pension. Germany was in fact an exception in Western Europe, for not having this kind of provision within the pension system. Older people with insufficient income were forced to rely on their adult children or, if this was not possible, general social assistance (Hinrichs 2003).

The introduction of a safety net in the pension system reflects many of the features of a modernising compromise, as it may constitute an additional protection for atypical workers (even though those who are out of the labour market for child rearing receive rather generous credits). This may have played a role in making the reform more acceptable to opponents of pension retrenchment, perhaps not so much the unions, but to sections of the SPD. The unions, in fact, obtained surprisingly little in the 2002 German reform. However, it is possible that the main deal between Schröder and organised labour took place outside pension policy. The unions acquiesced to pension reform, and in return obtained a favourable review of industrial relations law (*Betriebsverfassungsgesetz*), as a result of which works councils are now compulsory in smaller firms and the number of labour representatives in larger firms has been increased (Hinrichs 2003).

With regard to the introduction of contribution credits, the pre-reform structure of the German pension system left little room for modernising compromises. Since the mid-1980s German pensions take into account periods of time spent out of the labour market for child rearing, by awarding contribution credits. These have been increased in the 1990s, as a result of a decision of the Federal constitutional court, based on the view that the fact of having children should not result in lower pension entitlements (Langen 1998). Today, parents in Germany are entitled to contribution credits equal to those payable on an average wage (currently € 2376,50) for each child under the age of three living in the same household. The contributions are credited to the mother, unless the parents request a different arrangement, regardless of employment status. However, if the parent is working, the total contribution is subjected to a ceiling. Contributions are credited also to individuals who spend at least 14 hours per week performing caring tasks, if not working more than 30 hours per week. Students are entitled to contribution credits for a period of three years after the age of seventeen. Recipients of unemployment benefit maintain pension coverage (BMA 2001).

Contribution credits did become an issue in the 2002 reform, but in relation to the new funded individual retirement accounts. The funds invested in the new pension are tax free (up to a ceiling) but in order not to disadvantage people who do not pay or pay very low rates of income tax, tax exemptions can be converted into subsidies if this is more advantageous for the insured person. In addition, parents get extra subsidies proportional to the number of children they have. When the reform will be fully implemented (from 2008 onwards) parents will receive € 185 for each child (Anderson and Meyer, in press). The combination of tax exemptions with subsidies in a private pension regime can be seen as a progressive move, capable of attracting the support of part of the anti-retrenchment camp. However, like in the case of the means-tested pension, these concessions may have bought the approval of SPD modernisers rather than union members. In addition, these subsidies simply reflect the

established practice in the fields of the social insurance pensions and family policy. Their introduction did not as a result require a proactive effort by the government, but simply resulted from the application of standard practice.

The German reform contains some weak elements of a modernising compromise. Retrenchment was adopted together with elements of expansion that are likely to benefit individuals with interrupted or part-time careers. Given the fact that these are of little benefit to union members, it is difficult to see them as an essential element in the pension deal, though they may have been useful in obtaining SPD support in parliament. The overarching deal between the government and the unions, which made the reform possible, may well have taken place outside pension policy in the field of industrial relations.

Discussion

The presentation of the case studies above confirms the already anticipated view that modernising compromises in pension reform are rare, but not non-existent. Of the five cases reviewed, Sweden and Switzerland are the clearest examples of modernising compromises, where political deals are made which include the adoption of provision designed to benefit non-standard employees, above all women who interrupt or reduce their labour market involvement when raising children. The German reform contains an important element of modernisation in the shape of a guaranteed minimum pension. This may turn out to be an important safety net for current atypical workers, but most likely it will concern only those at the very bottom of the earnings distribution and/or those with very long periods spent out of the labour market.

Table 2: Determinants of modernising compromises (MC) in pension reform and outcomes

	Sweden	France	Switzerland	Italy	Germany
Absence of provision for non-standard workers	X		X	X	
Veto point dense political system			X		X
Feminised /young labour movement	X				
Strong connection between Social democrats and trade unions	X		X		
Outcome	MC		MC		(MC)

Table 2 summarises patterns of presence /absence of the conditions identified above as likely to favour the emergence of modernising compromises in pension reform. On that basis, Switzerland and Sweden appear the countries most likely to have followed this path. Germany and Italy are somewhat less likely, and France is the least likely of the cases reviewed in this paper. The empirical evidence tends to confirm this theory driven expectation, as

modernising compromises have clearly taken place in Sweden and Switzerland, and in a somewhat muted form, in Germany.

Unfortunately the limited number of cases combined with the large number of possible combination of the various independent variables, makes it impossible to say anything with regard to the relative importance of each of factor considered. Taken together, however, they seem to be pretty successful in accounting for the observed pattern. It is interesting to notice that the presence of generous provision for non-standard workers prior to the reform (Germany) does not rule out entirely the adoption of modernising compromise elements. This suggests that contrary to what hypothesised above, modernising compromises may not be one-off opportunities, and may instead be repeated a number of times, with provision of non-standard workers being improved incrementally.

Conclusion

The comparative analysis of pension reform presented in this paper both confirms findings of previous research and opens new avenues for future analysis. As already argued in the literature, (Bonoli 2000; Hinrichs 2001; Myles and Quadagno 1997; Myles and Pierson 2001; Schludi 2002) policy makers engaging in a pension reform have a strong incentive to act in a consensual manner, or at least to take into account the interests of external influential actors, chiefly the labour movement. All the cases reviewed above are instances of successful policy-making based on the inclusion in reform packages of important concessions to the trade unions. The discussion of the German and the French cases, suggests that the concession may not always be that easy to see.

In the French case, the fact that the government gave in to a long standing demand by some sections of the labour movement, did not suffice to generate open support for the reform. Yet, it was clear from interviews carried out with trade unions and ministry officials that the setting up of an “Old age solidarity fund” at the same time as the adoption of pension retrenchment measures, made it easier for the unions to accept the reform (Bonoli 1997; 2000). *Quid pro quos* are not always self-evident and may require detailed actor-focused research to be uncovered.

The German case suggests a further complication. *Quid pro quos* may include decisions taken outside the field of pensions. When government and the unions are conducting negotiations in different policy areas, there is no reason why the latter may not accept losses on one area in exchange for gains in a different one. This seems to be at least part of the German story, and should be taken into account when analysing pension policy-making in general.

Compromises and *quid pro quos* seem to be frequent occurrences in pension reform, but those described here as “modernising compromises” less so. The reason why this is the case must be sought in the relative rarity of the conditions that have been identified as conducive to modernising compromises. Patterns of representation of winners and losers in pension reform vary across countries, and it is only under some specific circumstances that a modernising compromise can be expected. Both groups of people need to be represented in the political arena, and the must be represented by the same actor or by connected actors. Other conditions identified above (veto points in the political system and absence of provision prior to the

reform) may pose an additional hurdle to the adoption of a modernising compromise, hence their relative rarity.

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